Distr.
GENERAL

IDB.10/34
16 October 1992

ORIGINAL: ENGLISH

United Nations Industrial Development Organization

Industrial Development Board

Tenth session
Vienna, 2-6 November 1992
Item 4 of the provisional agenda

REPORT OF THE PROGRAMME AND BUDGET COMMITTEE

The financial situation of the UNIDO Country Director programme

Submitted by the Director-General

Summary

Draws the attention of the Board to the financial situation of the UNIDO Country Director programme under the various sources of funds, in particular the sectoral support funds of the United Nations Development Programme.

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Introduction

1. The Programme and Budget Committe at its eighth session, in its conclusion 92/13, recommended to the Board for adoption at its tenth session a draft decision requesting the Director-General to submit to the Board at its eleventh session a report on the financing of the UNIDO Country Director (UCD) programme. In paragraph (iii) of that same decision, the Committee considered that the target of 50 UCD posts be reached or at least maintained at the present level, and that that goal needed financing from an appropriate combination of sources. Given the acute financial constraints facing the UCD programme at present and in order to enable the Board to consider this issue before the next session of the Governing Council of the United Nations Development Programme (UNDP), which is to be held in February 1993, the Director-General has decided to submit the present report to the current session of the Board.

2. At present the UCD offices are funded from three sources: UNDP sectoral support, UNIDO operational budget and voluntary contributions under the Industrial Development Fund. As indicated in the report of the Director-General to the ninth session of the Board (IDB.9/8, para. 3), a total of 39 posts were foreseen for 1992 to be financed as follows:

Funding source	UCD posts
UNDP sectoral support	26
Operational budget	10
Voluntary contributions	3
TOTAL	39

I. UNDP SECTORAL SUPPORT BUDGET

3. In its decision 91/34, paragraph 2, the UNDP Governing Council decided on an annual allocation of $3.8 million of sectoral support funds for the UCD programme, amounting to an indicative funding level of $19 million for the fifth programming cycle (1992-1996). This level of funding will not be sufficient to maintain the posts currently financed by UNDP throughout the cycle.

4. When the estimates of expenditures for the year 1992 were calculated, UNIDO relied to a large extent on the historical costs of the UCD (former SIDFA) programme financed and administered by UNDP

V.92 57639 3767E

Distr.: 19 October 1992

prior to 1990. The annual UNDP-financed UCD costs for the years 1987-1990 were either lower than the sectoral support allocations or covered by unutilized funds carried forward from preceding years. The calculation of more accurate estimates for 1992 based on the years 1990 and 1991 was complicated by the delay in the receipt and processing of field charges for those years. The final expenditure reports for 1991, for example, will not be available before the end of 1992.

5. The financial experience to date and projections for the remainder of 1992 indicate that the annual sectoral allocation from UNDP of $3.8 million is insufficient to fund the number of UCD offices currently financed by UNDP. The costs of UCD posts and local support costs in 1992 are expected to be substantially higher than previously envisaged. The annual international costs have increased steadily since 1989 and are projected to be at a level of $3.5 million for 1992. These costs comprise salaries, staff entitlements (common staff costs) and international duty travel of UCDs. The local costs in support of the UCD offices have also increased substantially during this period as UNDP continues to shift the burden of administrative costs, including the increased and unforeseen costs for security measures, to the United Nations agencies sharing the same offices. The local costs are thus now estimated to be at $1.8 million for the year 1992. Total estimated expenditures of $5.3 million in the first year of the fifth cycle are expected to exceed the annual funding from UNDP sectoral support by approximately $1.5 million. On completion of the review of obligations relating to 1991 currently being undertaken, the shortfall could be reduced by $0.1 million to $1.4 million. The impact of the shortfall in 1992 will be a reduction in the level of funding envisaged for the remainder of the fifth cycle.

6. The average annual cost of maintaining each UCD office for the years 1992 to 1996, including an estimate of 5 per cent per annum for inflation and other cost increases is estimated as follows:

Year	Average annual cost (in US$)
1992	221,000
1993	231,000
1994	242,000
1995	254,000
1996	266,000

The financing of 26 offices in 1993 would cost approximately $6 million, thereby exceeding the annual allocation of $3.8 million by $2.2 million. It is therefore clear that UNIDO would not be able to maintain the present number of field offices without an increase in resources.

7. In the event that additional financial resources cannot be identified, for the period 1993 to 1996 UNIDO would be obliged to reduce by 11 to 12 the number of UCD offices funded by UNDP sectoral support from the current number of 26, resulting in an average annual number of 15 or 14 offices. This assumes that the shortfall in 1992 could be met by a more flexible utilization of the annual allocation for the remainder of the fifth cycle. However, this will only provide a temporary solution.

8. The Director-General has had consultations on the financial situation of the UCD programme with the Administrator and Associate Administrator of UNDP, the last of which took place in September 1992. In these consultations, UNDP has shown much understanding for UNIDO's predicament. The possibility of a change in the yearly allocation within the fifth programming cycle (see para. 7 above) was discussed. It was agreed, however, that the matter would have to be brought to the attention of the Governing Council by the Industrial Development Board. Furthermore it was clear that it would provide a temporary solution for the present year, but would not be a viable solution for financing the UCD programme in the future.

9. In paragraph 4 of Governing Council decision 91/34, the Council decided that the sectoral support programme be reviewed in 1993 as part of the evaluation of the new support cost arrangements. While this review is to be undertaken in consultation with the other agencies forming part of the sectoral support programme, it is of the utmost importance to include the issue of financing of the UCD programme in those consultations.

II. OPERATIONAL BUDGET

10. The programme and budgets for the 1992-1993 biennium provide for 10 UCD posts to be financed under the operational budget.

11. Paragraph 3 of UNDP Governing Council decision 91/34 invites the Board to address the question of financing of UCDs in the light of the successor arrangements to support costs. As a result of the successor arrangements, UNIDO's support cost income from UNDP is expected to drop drastically, thereby affecting the operational budget of UNIDO and its ability to continue financing the UCD programme as at present.

12. Given the importance attached by Member States to UNIDO field representation and notwithstanding the financial difficulties currently experienced in the operational budget, every attempt will be made to maintain the current number of posts under that source of funds through 1993.

III. VOLUNTARY CONTRIBUTIONS

13. In 1992, voluntary contributions provided for the financing of three UCD posts (one by Germany and two by Italy). Those funds will be fully utilized by the end of 1992 and the Secretariat is soliciting additional voluntary contributions from donor countries to avoid a further reduction of three posts in the 1993 budget. Should those efforts not succeed, the three posts financed by voluntary contributions would have to be dropped.

IV. CONCLUSIONS

14. In view of the situation described above, there is a necessity for the Board at its tenth session to consider inviting the UNDP Governing Council at its forthcoming session in February 1993 to consider an increase in the yearly allocation for sectoral support for the fifth programming cycle, so that the present number of UNDP-financed UCD posts may be maintained to the extent possible.

15. The maintenance of 26 posts financed by UNDP through 1996 would require an allocation of $31 million. Given the limited possibility that UNDP would raise the allocation for the UCD programme to the level of $31 million, it is proposed that a request for an increase of $5 million over the current allocation of $19 million for the UCD programme be addressed to the UNDP Governing Council for its consideration. This would bring the total resources available to the UCD programme received from UNDP to $24 million for the whole of the fifth cycle. Such an increase will still entail a reduction in the number of UNDP-funded UCDs as shown in table 1 below.

Table 1

Proposed financing schedule A for UCD posts (1992-1996)

Year	No. of posts	Average costs (in US$)	Total requirements (in millions of US$)
1992	26	221,000	5.2 a/
1993	26	231,000	6.0
1994	17	242,000	4.1
1995	17	254,000	4.3
1996	17	266,000	4.5
		TOTAL	24.1

a/ Includes anticipated amount of $100,000 carried forward from 1991 and savings owing to vacancies in 1992.

16. Alternatively, in the event that the UNDP Governing Council is unable to approve additional recources requested by UNIDO to maintain the present level of posts, UNIDO would have to reduce the number of posts during the fifth cycle as shown in table 2 below. For the proposed distribution of posts during the cycle an adjustment of the annual allocations provided for in paragraph 2 of Governing Council decision 91/34 would be required.

Table 2

Proposed financing schedule B for UCD posts (1992-1996)

Year	No. of posts	Average costs (in US$)	Total requirements (in millions of US$)
1992	26	221,000	5.2 a/
1993	20	231,000	4.6
1994	14	242,000	3.4
1995	12	254,000	3.0
1996	10	266,000	2.7
		TOTAL	18.9

a/ Includes anticipated amount of $100,000 carried forward from 1991 and savings owing to vacancies in 1992.

17. Since in both alternatives the number of posts will have to be reduced, a thorough review of the allocation of posts will have to be made, taking into account the contribution of each post to UNIDO's overall programme.

18. In order to minimize the impact in the number of UCD posts owing to the reduction in income to UNIDO as a result of the new successor arrangements, the Director-General intends on a trial basis to combine the functions of UCDs with those of the Regional Advisers, posts for which are included in the regular budget.

19. Similarly, the Director-General also intends, on a trial basis, to consider the appointment of National Senior Officers as national UCDs.

20. In view of the current financial situation of UNIDO and in line with previous decisions of policy-making organs (e.g. IDB.8/Dec.14, GC.4/Res.4), Member States should consider increasing their voluntary contributions to the UCD programme to permit an increase in the number of posts. Likewise, host Governments will need to contribute increasingly towards the local operating costs of UNIDO field offices.

21. The above considerations should be without prejudice to the ongoing discussions on the restructuring of a unified United Nations field representation system, since it is to be assumed that the present arrangement of an integrated UNIDO field representation in the UNDP field offices would continue.

22. Furthermore, as pointed out in paragraph 9 above, it is of the utmost importance that the review of the sectoral support programme, which is to be carried out in 1993 as part of the evaluation of the new support cost arrangements, include the issue of financing the UCD programme, with a view to ensuring the continued participation of UNDP in the financing of UCDs at an appropriate level.

V. ACTION REQUIRED OF THE BOARD

23. The Board may wish:

(a) To take note of the present report and to request the Director-General to continue consultations with UNDP on the most appropriate financing arrangements that would permit the maintenance of the maximum number of UNDP-financed posts for the fifth programming cycle;

(b) To invite the Governing Council to consider (i) approving an increase of the annual allocation for the UCD programme to permit the maximum number of UCD posts possible and, pending such a decision (ii) to authorize the Administrator as an interim measure to adjust the yearly allocation within the total resources approved for sectoral support in accordance with paragraph 15 of document IDB.10/34;

(c) To invite the Governing Council to consider the financing of the UCD programme in the review which is to be undertaken in 1993 on sectoral support in accordance with paragraph 4 of Governing Council decision 91/34;

(d) To request the Director-General to report to the Board at its eleventh session on the follow-up to the present report.